

# Morning Coffee



Tuesday March 23, 2010

S&P/TSX Composite	+19.19	11967.17
Dow Jones	+43.91	10785.89
S&P 500	+5.91	1165.81
NASDAQ	+20.99	2395.40
S&P/TSX Venture	-9.47	1554.59
Philadelphia SOX	+8.58	364.25
Crude Oil (US\$/brrl)	+0.63	81.60
Gas (US\$/mmbtu)	-0.09	4.08
Copper (US\$/lb)	+0.01	3.37
Gold (US\$/oz)	-8.10	1099.50
Nickel (US\$/lb)	-0.14	10.17
Palladium (US\$/oz)	-9.00	458.00
Platinum (US\$/oz)	-6.50	1600.25
Silver (US\$/oz)	-0.07	16.92
Uranium (US\$/lb)	+1.00	42.25
Canadian Dollar	-0.0015	0.9815
30 Year Canada	-0.02	4.032
30 Year U.S.	-0.01	4.571
Volatility Index (VIX)	-0.12	16.85

## In Grenade News...



It's the hottest new bit of hardware in the arms race – a non-lethal hand grenade loaded with the world's most powerful chillies.

Military experts in India have developed a new crowd control grenade packed with ground seeds from the Bhut Jolokia, officially recognised as the hottest chilli on the planet by Guinness World Records.

When deployed, the grenade showers the targets with a dust so spicy that in trials subjects were blinded for hours and left with breathing problems.

Military leaders say it will be a major breakthrough in riot control or smoking out criminals and terrorists from their hiding places.

“The chilli grenade is a non-toxic weapon and when used would force a terrorist to come out of his hideout,” lead scientist R.B. Srivastava at India's Defence Research and Development Organisation told Reuters. “The effect is so pungent that it would literally choke them out.”

## CANADA

The S&P/TSX Composite was up slightly on Monday, held back by falling gold stocks as the U.S. dollar gained strength amid persistent worries about the ability of Greece to repay its debt. **First Quantum Minerals (FM)** declined as Chinese copper inventories rose 9% last week and imports gained 12%. **Manulife Financial (MFC)** weighed the most on the benchmark index after North America's biggest life insurer reduced its forecasts for adjusted earnings from operations.

**Osisko Mining (OSK)**, which explores for gold in Canada, sank after announcing an agreement to buy **Brett Resources (BBR)**, owner of the Hammond Reef Gold Deposit in Ontario. The companies valued Osisko's all-stock bid at \$372 million, a 53% premium over Brett's average market value over the last 20 trading days.

According to media reports, Ecuadorian President Rafael Correa on Saturday asked his cabinet and top officials to resign to make room for changes he wants to make, sending regional plays sharply lower. **Stornoway Diamond (SWY)** surged after saying its Renard diamond project in Quebec may be almost twice as profitable to develop as previously forecast.

**TMX Group (X)** said late on Friday it will reduce trading fees for securities trading at \$1 and higher on the Toronto Stock Exchange and the TSX Venture Exchange.

## UNITED STATES

Benchmark indexes erased an early decline, as drugmakers rallied after the House of Representatives passed an overhaul of the industry. **Merck (MRK)** and **Pfizer (PFE)** led advancers after the House approved legislation that will ensure tens of millions of uninsured Americans will get medical coverage.

**Medtronic (MDT)** also rallied after the biggest maker of heart-rhythm devices won a U.S. panel's backing on March 19 to introduce the nation's first heart pacemaker designed to be used safely by patients undergoing magnetic resonance imaging exams.

**Novell (NOVL)** jumped higher after the maker of Linux operating-system software said a \$5.75-a-share acquisition offer from Elliott Associates LP is “inadequate” and undervalues the company.

**Consol Energy (CNX)** had the biggest retreat in the S&P 500, as the coal and natural gas producer said it will offer to acquire the remaining shares of **CNX Gas (CXG)** that it doesn't own for about \$965 million.

**Tiffany's (TIF)** was little-changed after the world's second-largest luxury jewellery retailer reported fourth-quarter profit that trailed analysts' estimates, as expenses rose.

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## ECON 101

**CANADIAN Data Today:** This morning, **Leading Indicators** (Feb) are expected to rise by 0.9%, after also gaining 0.9% the previous month.

**U.S. Data Today:** This morning, **Existing Home Sales** (Feb) are expected to fall by 1.2%, after losing 7.2% the previous month, while the **Housing Price Index** (Jan) should fall by 0.9%, after losing 1.6% before that.

## ECON 201

The **Federal Reserve Bank of Chicago's National Activity Index** fell to -0.64 in February from a downwardly revised -0.04 in January (previously 0.02). The index's three-month moving average fell to -0.39.

**Total German Exports** declined 18.4% in 2009, while the value of exports to China increased 7.0% in 2009, led by machinery, cars & parts, and electrical equipment.

**Taiwan's Seasonally Adjusted Unemployment Rate** dropped to 5.65% in February from 5.73% in January.

## MARKET MOVERS

### Technical Indicators:

	TSX	TSX-V	NYSE	NASDAQ	AMEX
Advancers	713	374	2004	1695	233
Decliners	827	397	1030	973	233
Net	-114	-23	+974	+722	0

### Notable 52-Week Highs:

Allbanc Split Corp.	ABK.A	\$ 34.18	Financial 15 Split Corp. II	FFN.PR.A	\$ 9.86
AlarmForce Industries	AF	\$ 7.85	Fortress Paper	FTP	\$ 16.80
Acuity Focused Total Return	AFU.UN	\$ 6.14	Fortis Inc.	FTS.PR.E	\$ 28.20
Allbanc Split Corp. II	ALB.PR.A	\$ 25.68	Genesis Land Development	GDC	\$ 4.20
Brookfield Asset Management	BAM.PR.B	\$ 17.82	HAP North American Growth ETF	HAW	\$ 10.93
BCE Inc.	BCE.PR.D	\$ 22.34	HBP Financials Bull+ E.T.F.	HFU	\$ 12.02
BCE Inc.	BCE.PR.G	\$ 22.00	Hammond Power Solutions Inc	HPS.A	\$ 11.21
BCE Inc.	BCE.PR.H	\$ 22.25	HBP NASDAQ-100 Bull+ E.T.F.	HQU	\$ 13.93
BCE Inc.	BCE.PR.Y	\$ 22.01	Global Strategy Master LP	LPV.UN	\$ 0.38
BCE Inc.	BCE.PR.Z	\$ 21.09	Mediagrif Interactive Techn.	MDF	\$ 6.57
Canadian Banc Recovery	BK	\$ 11.49	Mantra Resources	MRL	\$ 5.97
Bank of Montreal	BMO	\$ 61.90	NovaGold Resources	NG	\$ 7.79
Bankers Petroleum	BNK	\$ 8.97	Northern Property REIT	NPR.UN	\$ 23.95
Bank of Nova Scotia	BNS	\$ 50.81	Prime Dividend Corp.	PDV	\$ 7.99
Brookfield Properties	BPO	\$ 15.73	Paladin Labs Inc	PLB	\$ 23.24
Baytex Energy Trust	BTE.UN	\$ 35.98	Perseus Mining Limited	PRU	\$ 2.10
Canam Group Inc	CAM	\$ 8.37	R Split III Corp.	RBS	\$ 14.83
First Asset CanBanc Split	CBU	\$ 22.30	Retrocom Mid-Market REIT	RMM.UN	\$ 4.23
Claym Glb Real Estate E.T.F.	CGR	\$ 16.80	Royal Bank of Canada	RY	\$ 59.72
CIBC	CM	\$ 76.69	Second Cup Income Fund	SCU.UN	\$ 7.50
CIBC	CM.PR.L	\$ 28.53	Stella-Jones Inc.	SJ	\$ 27.85
Canadian National Railway	CNR	\$ 60.74	SIR Royalty Income Fund	SRV.UN	\$ 9.64
Colossus Minerals	CSI	\$ 7.09	SXC Health Solutions	SXC	\$ 69.27
The Data Group Income Fund	DGI.UN	\$ 8.89	TD Bank	TD	\$ 75.75
Exchange Income	EIF	\$ 14.90	TD Bank	TD.PR.I	\$ 28.38
5Banc Split	FBS.B	\$ 8.00	TD Bank	TD.PR.K	\$ 28.47

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TD Split Inc	TDS.B	\$ 46.26	iShares S&P CNX Nifty India	XID	\$ 20.71
Wall Financial	WFC	\$ 10.80	TDb Split Corp.	XTD.PR.A	\$ 9.96
iShares DJ Cdn Dividend E.T.F.	XDV	\$ 19.98	BMO Equal Weight Bnk E.T.F.	ZEB	\$ 16.93
Extorre Gold Mines	XG	\$ 1.88	BMO Nasdaq 100 Eqty Hedged-CAD	ZQQ	\$ 15.40

## Notable 52-Week Lows:

Apollo Gold	APG	\$ 0.33	Peregrine Metals	PGM	\$ 0.80
Atna Resources	ATN	\$ 0.59	Progress Energy Resources	PRQ.R	\$ 12.10
HBP Financials Bear+ E.T.F.	HFD	\$ 8.66	Storm Exploration	SEO	\$ 10.51
HBP NASDAQ-100 Bear+ E.T.F.	HQD	\$ 11.34	T. Boone Pickens Energy Fund	TBP.UN	\$ 8.37
O'Leary BrIC-Plus Income & Gr	OBF.A	\$ 11.71	Timminco	TIM	\$ 0.86
PetroBakken Energy	PBN	\$ 26.28	Tri Origin Minerals	TOR	\$ 0.08

## CANADIAN EQUITIES OF INTEREST

Listed Alphabetically by Symbol

### Ecuador

**Did the political risk in Ecuador just spike?** According to media reports, on Saturday, in a shuffle of sorts, Ecuador President Rafael Correa asked his cabinet and top officials to resign to pave the way for changes he wants to make. Correa was quoted by Reuters as saying, "We've decided to carry out what are called crisis measures in the cabinet; that means asking all ministers and top officials to resign...so the president can have the freedom to replace those he sees necessary." Dow Jones says annual resignations are normal in Ecuador, but they usually come at the end of December or at the beginning of the year. Ecuador is currently in talks with oil operators to convert to service contracts to give the state more revenue from its oil. But negotiations have dragged past several deadlines as the parties failed to agree on terms. Last year, many believed that political risk in Ecuador had moderated with the signing of the new mining law and with the proactive reinstatement of back to work activities.

### Armtec Infra. Income Fund\* (ARF.UN : TSX : \$21.50), Net Change: -1.32, % Change: -5.78%, Volume: 539,480

**Hold on?** Armtec shares continued to slide as several analysts lowered their target price following the company's Q4 miss. The stock is now down 14% from Thursday (the day prior to the miss). Armtec reported Q4/09 results last week below Canaccord Adams' expectations. Revenue/EBITDA/distributed cash flow per unit were \$117 million/\$18 million/\$0.62, compared with Canaccord Adams' \$139 million/\$26 million/\$0.96 estimates. The bulk of the miss came from the Con-Force division, where revenue came in 30% below our forecast due to several large structural projects not starting up in the quarter as anticipated. Following the miss, Canaccord Adams Infrastructure Analyst Yuri Lynk lowered his 2010 EBITDA estimate by 20% to \$81 million and his 2011 estimate by 8% to \$102 million. Lynk anticipates weaker overall gross margin in 2010 due to more competitive market conditions and a weak H1/10 overall before large structural projects already booked into backlog kick in. However, he does highlight that the stock offers a 10% distribution yield at this price level and while this is likely to be trimmed by 20-25%, the yield would still be very attractive. Furthermore, he expects a special distribution to be paid at year-end 2010 that could help to partially offset the distribution cut. Lynk remains bullish on the stock as the valuation still looks cheap. Armtec trades at 11x 2011E EPU compared to **Vicwest Income Fund (VIC.UN)**, which trades at 9x 2011E EPU, **Northwest Pipe (NWPX)**, trading at 19x, and **Ameron (AMN)**, trading at 20x.

### Brett Resources\* (BBR : TSX-V : \$2.82), Net Change: 0.73, % Change: 34.93%, Volume: 14,921,106

### Osisko Mining (OSK : TSX : \$8.37), Net Change: -0.22, % Change: -2.56%, Volume: 5,593,317

**Is this a real-life game of Pac-Man?** Osisko announced it has entered into a definitive agreement with Brett Resources to purchase all its outstanding shares each for 0.34 of a common Osisko share to acquire the Hammond Reef project. The offer implies a 52% premium to Brett's previous 20-day average trading price. Based on BBR's 120 million shares fully diluted, the transaction values BBR at approximately \$372 million fully diluted, or \$308 million on an enterprise value basis (i.e., \$45/oz). Pro-forma the transaction, Brett shareholders will comprise 10.8% of the Osisko shareholder base. Brett's board has unanimously approved the transaction and current support for the transaction includes 19.6% of the fully diluted shares outstanding (split between senior officers at 4.9% that have agreed to lock-ups and certain institutional investors at 14.7%). Additionally, in the event of non-completion, there is a \$17.5 million break fee payable to Osisko. Records show **Kinross Gold**

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(K) holds roughly 17.1 million shares of Brett Resources representing 16% of basic shares outstanding (107.1 million shares). Post-deal, Kinross Gold will hold roughly 9.5% of Osisko on a fully-diluted basis. Hammond Reef comprises a current mineral resource of 6.7 million oz Au grading 0.80 g/t (at a cut-off grade of 0.3 g/t Au) and implies a purchase price of US\$45/oz Au. On a comparative basis, Osisko's Malartic project hosts a resource of 11.67 million oz (8.97 million Reserve at 1.13 g/t Au), trading at an in-situ value of approximately US\$236/oz total reserves (US\$181/oz total resources). Osisko believes that current excess or unused financing capacity in excess of \$300 million (\$250 million Osisko plus >\$55 million fully-diluted cash in Brett) and initial cash flows from Malartic should allow the company to substantially fund development of Hammond Reef with minimal requirement to raise external capital. **Goldcorp (G)** currently holds 11.47% of Osisko shares. What other North American junior golds could seniors be interested in? How about Osisko, **Detour Gold (DGC)**, **Premier Gold Mines (PG)** or **Rainy River (RR)**.

## **Bird Construction Inc. Fund\* (BDT.UN : TSX : \$32.57), Net Change: 0.02, % Change: 0.06%, Volume: 71,135**

*A save percentage of 0.857.* Bird Construction announced on Friday after market close that an operating subsidiary of the fund is part of the consortium that has recently been selected as the preferred proponent to design and build the RCMP E Division Headquarter Relocation Project located in Surrey, British Columbia. Bird is a member of the Green Timbers Accommodation Partners consortium responsible for the design, build, finance and maintenance of the new facility. Bird's role relates to the design and construction of the facility in a joint venture with Bouygues Building Canada Inc. The consortium plans to reach financial close in spring 2010 and to commence construction shortly thereafter. The facility is expected to be completed in late 2012. The value of Bird's share of the construction contract is approximately \$100 million. This, combined with the Alberta Schools II contract secured also last week, equates to roughly 30% of backlog. More importantly, Bird continues to cement its reputation as one of the "go-to" contractors in the P3 arena. Bird has been successful in six out of the seven P3 bids in which it has taken part over the last three years. Canaccord Adams Infrastructure Analyst Yuri Lynk expects news flow to remain positive as Bird is in the mix on three additional P3 projects that should be awarded over coming months. Bird units are currently yielding 5.53%.

## **Belmont Resources\* (BEA : TSX-V : \$0.09), Net Change: 0.04, % Change: 70.00%, Volume: 4,590,830**

## **Sparton Resources\* (SRI : TSX-V : \$0.14), Net Change: 0.01, % Change: 3.85%, Volume: 349,800**

## **Brett Resources\* (BBR : TSX-V : \$2.82), Net Change: 0.73, % Change: 34.93%, Volume: 14,921,106**

*The next best thing.* "Closeology plays" are other companies with land/projects that are adjacent or close to a company (project) that has just made a big discovery or has been a takeover target. Like clockwork, whenever a junior mining company is the subject of a takeover bid, the market begins to hunt for who else is in the area. Most recently, we saw how powerful the closeology trade can be. In the days following **Kinross' (K)** bid for a junior gold explorer in the Yukon, more than a handful of other junior gold explorers, deemed to be area plays, experienced huge moves as well. On Monday morning, the speculation as to why Brett Resources was halted last week was put to rest. Brett announced that it has received a friendly takeover offer from **Osisko Mining (OSK)**. So far, the big winner in Brett area plays is Belmont Resources, which announced Monday it has received approval for acquisition of claims contiguous and on strike to the north-northeast with Brett's Hammond Reef deposit. Belmont also stated that its drilling program is expected to commence in early April 2010. Of note, another area play with land holdings contiguous to Brett's flagship property is Sparton Resources, which reported recently, "The initial drilling program on its West Hammond Contact property located in northern Ontario has given very encouraging results and that a new gold discovery has now been made in the South Silicified Zone."

## **Bankers Petroleum\* (BNK : TSX : \$8.81), Net Change: 0.23, % Change: 2.68%, Volume: 3,408,174**

*Barrels of fun.* Shares of Bankers Petroleum continued their impressive climb, hitting a high on Monday of \$8.97 after reporting its fourth-quarter and 2009 year-end results. Shares are up a massive 1,075% since a low of \$0.75 in January 2009. The company generated Q4/09 cash flow of US\$10.8 million, or US\$0.05 per share, in line with Canaccord Adams' estimate of US\$0.05 and slightly below the consensus estimate of US\$0.06. Fourth-quarter production averaged 7,230 b/d and the company exited the year slightly above 8,100 b/d (versus its guidance for an exit of 8,000 b/d). Current production levels are approximately 9,000 b/d. The company also confirmed its target exit rates of 15,000 b/d for 2010 and 24,000 b/d for 2011, based on its current field development plans. Also of note, Bankers Petroleum commenced construction of an additional 80,000-barrel tank of storage capacity at Vlore. Construction is expected to complete by September 2010 and will facilitate faster and larger oil shipments, which should lead to better price realizations on its heavy oil. Construction of a 14-kilometre pipeline connecting the field by rail to the export terminal is underway and is expected to supplement current truck capacity of 15,000 b/d with 9,500 b/d through rail transport by early 2011. The second phase, a 30-kilometre 70,000 b/d pipeline connecting the

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field to the export terminal, is planned to commence construction in late 2011. Additionally, in January 2010, Bankers' second drilling rig, the Crosco Skytop 3, started drilling its first horizontal well at Patos Marinza. Going forward, the company reiterated its 2010 capital program of US\$152 million, with includes plans to drill 52 horizontal wells in 2010, up from the 10 drilled in 2009. Bankers also plans to source a third rig, which is expected to commencing drilling in Q4/10. Its 2010 plans include an initial thermal pilot at Patos Marinza, while a waterflood program is planned at the Kuçova field this year. Canaccord Adams Oil & Gas Analyst Terry Peters is bullish on the stock. He raised his target price earlier in the month after the company reported significant gains in both year-end reserve volumes and values. The company's independent engineering evaluators RPS Energy Canada (RPS) and DeGolyer and McNaughton Canada (D&M) also increased the estimate of mean original oil-in-place (OOIP) by 21% to 6 billion barrels.

**Biovail\* (BFV : TSX : \$16.27), Net Change: 0.16, % Change: 0.99%, Volume: 1,011,926**

**Biovail\* (BFV : NYSE : US\$16.03), Net Change: 0.12, % Change: 0.75%, Volume: 1,465,066**

*Eugene Levy was funnier.* Eugene Melnyk, founder of Biovail, has sold "substantially all" of his stock in Canada's largest public drugmaker. Since November 24, 2009, the founder sold 9.64 million (or 6.2% of outstanding shares), worth about \$150 million, given an average share price of \$15.39 since that time. According to filings, he is now left with just 232,000 shares. The biggest piece of his position was sold last Thursday \$117 million. Melnyk resigned from the company's board of directors in June 2007 amid allegations from the U.S. of securities fraud and improper marketing. Melnyk has had little direct involvement in Biovail management since he quit as chairman of the company in 2007, although he provoked a proxy fight in 2008, complaining about the company's direction. This sale may take away an overhang on the stock.

**Cap-Link Ventures (CAV : TSX-V : \$0.40), Net Change: -0.01, % Change: -2.44%, Volume: 1,218,104**

**Alange Energy (ALE : TSX-V : \$0.59), Net Change: 0.02, % Change: 3.51%, Volume: 1,088,047**

**Canacol Energy\* (CNE : TSX-V : \$0.62), Net Change: -0.01, % Change: -1.59%, Volume: 1,712,040**

**Parex Resources\* (PXT : TSX-V : \$4.72), Net Change: -0.08, % Change: -1.67%, Volume: 169,260**

*And the winner is...* A Bay Street analyst reported Monday that spent 105 pages discussing the "vibrant and growing junior E&P sector" that has emerged in Colombia. The brokerage has initiated coverage on four junior oil and gas explorers with a focus in Colombia. Coming out on top was CapLink Ventures. The brokerage highlighted CapLink as their top pick amongst the four juniors they picked up coverage on, because it has the largest resource and upside potential. The other three juniors included in the report were: Alange Energy, Canacol Energy and Parex Resources. The brokerage stated, "All four of the companies that we are initiating coverage on have highly qualified and motivated management teams with the capacity for growth to an intermediate size over the next 12-24 months." Because of the combination of "a proven, prolific, but underdeveloped hydrocarbon province, well developed and improving services, and infrastructure" - the brokerage believes that Colombia is "one of the most attractive places to invest in oil and gas globally."

**Electrovaya\* (EFL : TSX : \$1.07), Net Change: 0.12, % Change: 12.63%, Volume: 728,585**

*Name-dropping rally.* Shares of Electrovaya, a zero-emission lithium ion battery systems maker, spiked on Monday after the company announced that former Chrysler CEO Tom LaSorda has joined Electrovaya's board of directors and has been appointed as special advisor to the CEO. According to the company, LaSorda will help Electrovaya's CEO, Sankar Das Gupta, with the company's growth strategy, including business development and global alliances. LaSorda has more than 30 years of auto industry experience with General Motors and Chrysler. Until Chrysler emerged from bankruptcy protection last year, he was Vice Chairman, President and a Board member. He also served as CEO of Chrysler when it was owned by **Daimler (DAI)**. Going forward, Electrovaya says it aims to speed the commercialization of clean transportation with its advanced power system for all classes of zero-emission electric vehicles and plug-in hybrid electric vehicles.

**Fortuna Silver Mines\* (FVI : TSX : \$2.63), Net Change: 0.20, % Change: 8.23%, Volume: 540,948**

*Jump, Tuna! Jump!* Shares of Fortuna jumped in late trading Monday after the company released its audited financial statements and MD&A for 2009. Some of the highlights included: i) Operating income of US\$14.38 million, compared to a loss of US\$5.59 million in 2008; ii) Net cash provided by operating activities of US\$13.69 million, compared to US\$8.36 million in 2008; iii) Cash cost of negative US\$4.93 per silver ounce, net of by product credits; iv) Cash production cost per tonne of ore was US\$46 and the corresponding unit net smelter return was US\$124; v) Sales of US\$51.43 million compared to US\$24.87 million in 2008; and vii) Record metal production of 1,685,026 ounces of silver, 11,485 tonnes of lead and 12,901 tonnes of zinc (up 109%, 52% and 22% respectively over 2008). The company also stated that it has all of the key permits for construction at San Jose and that project staffing for the construction phase is currently being conducted and the EPCM contract

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for the construction of the plant and ancillary facilities is in the process of being granted. Pre-construction activities have been initiated in the field for the water project and tailings facilities. Canaccord Adams Junior Mining Analyst Nicholas Campbell expects Fortuna's annual silver-equivalent production to increase to more than 5.5 million ounces by 2012. He is bullish on the stock based on its: 1) Organic growth profile; 2) Solid balance sheet and consistent cash flows; and 3) Attractive valuation. He expects this company to gain broader investor attention, which should lead to a revaluation in line with other junior precious metal producers.

**lululemon athletica\* (LLL : TSX : \$35.66), Net Change: 1.60, % Change: 4.70%, Volume: 66,733**

**lululemon athletica\* (LULU : NASDAQ : US\$35.04), Net Change: 1.54, % Change: 4.60%, Volume: 576,644**

*A good quarter is not a stretch.* Investors Business Daily (IBD) noted yesterday that lululemon has recovered nicely after its business sagged in a frigid spending climate. The company has struck a chord with fitness buffs and yogis by offering high-quality, premium products with distinctive features, analysts say. And it uses innovative grass-roots marketing to lure them into stores. Followers expect lululemon to enjoy a healthy showing when it reports results Thursday for the fourth quarter ended January 31. Analysts expect earnings to rise 45% to \$0.29 a share. The company says it sees same-store sales increasing at a rate that's in the midteens on a constant-dollar basis. Followers say Lululemon may well top views, thanks to a warmer climate for retailers overall and growing brand awareness. "We saw a better-than-anticipated Christmas for retailers," IBD quoted one analyst as saying. "That will be the same with lululemon. I think we will see them have a better same-store sales environment and better earnings environment than management had initially expected."

**Mundoro Capital\* (MUN : TSX : \$1.07), Net Change: -0.18, % Change: -14.40%, Volume: 1,220,305**

*The Friday Night Special.* After the market close on Friday, Mundoro noted that its joint venture partner has suggested they terminate the Maoling gold project and liquidate the joint venture company. The reason cited for the proposed termination and liquidation are that current Chinese environmental and drinking water regulations make it impossible for the joint venture company to conduct mining activities at Maoling. In response, Mundoro said Friday that it does not intend to terminate the joint venture and liquidate the joint venture company. Mundoro believes that the work completed to date by its Chinese and international engineering firms and environmental consultants demonstrates that the project can be developed in a sustainable and responsible manner with no significant impact on the downstream water storage facilities supplying Yingkou City and Dalian City. Mundoro stated that it is currently reviewing its alternatives with Chinese legal counsel and do not intend to expend significant further funds on the development of the Maoling project until such time as the political and legal alternatives have been identified and evaluated.


**Stornoway Diamond\* (SWY : TSX : \$0.63), Net Change: 0.13, % Change: 26.00%, Volume: 7,411,255**

*Outshining the market.* Stornoway updated its preliminary economic assessment (PEA) for the 50%-owned Renard diamond project in Northern Quebec. Key points: 1) A conceptual mine life of 25 years based on a production rate of 1.8 million tonnes per year and a total diamond production of 30 million carats; 2) A production rate increased to 5,000 t/d after year three from 3,500 t/d; 3) An initial open-pit and ramp-access underground followed by shaft access; and 3) Base case (March 2009 diamond pricing) estimates of pre-tax NPV(8%) of C\$885 million and Internal Rate of Return of 24.8%. This equates to estimated five-year payback on US\$511 million capex. The stock has rallied on this update as the project has shown considerable improvements in performance metrics since December 2008 PEA. Going forward, the company appears to have excellent exploration potential particularly in Renard 65 and Renard 4 pipes at depth to be tested this summer. Stornoway plans to go to full feasibility and production decision by the end of 2011. Executive Chairman Eira Thomas commented, "This study has firmly established Renard as one of the best undeveloped diamond deposits in the world, well on track to becoming Quebec's first diamond mine. We now have a project with size, mining margin and significant upside potential in the resource. Our principal kimberlite body, Renard 2, is high grade and open at depth, and limited exploration drilling has been undertaken on the other kimberlites below 300 m. As we move the project towards full feasibility this year, we intend to continue exploring what is proving to be a major diamond deposit."

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## U.S. EQUITIES OF INTEREST

Listed Alphabetically by Symbol

### U.S. Healthcare

**He's B-ar-ACK.** President Barack Obama secured a victory with the House of Representatives passing the bill to overhaul healthcare by a vote of 219-212. The bill expands insurance coverage to nearly all Americans. The passage pushed up shares of several healthcare indices, although most healthcare insurance stocks declined on the news. The health insurance industry vigorously opposed the overhaul, but last week shares of the sector began to recover as investors began to realize that the worst fears for regulation would not likely emerge in this legislation. The vote sends the bill, which had already been passed by the Senate, to Obama to sign into law. The overhaul will extend health coverage to 32 million Americans, expand the government health plan for the poor, impose new taxes on the wealthy and bar insurance practices such as refusing to cover people with pre-existing medical conditions. Pharmaceutical companies, hospitals and others will benefit from more insured patients, and the bill does not allow the government to cap prices and premiums, which would have hurt drugmakers and insurers. Major provisions such as the exchanges and subsidies would not kick in until 2014, but many of the insurance reforms like barring companies from dropping coverage for the sick will begin in the first year. Under the deal to pass the bill, Obama will issue an executive order affirming government restrictions on the use of federal funds for abortion would not be changed by the healthcare bill. The two main factors which will affect the market are 1) the expected lower reimbursement to healthcare providers, and 2) the fact that a much larger proportion of Americans will now have access to healthcare insurance. Canadian names that could be impacted by the regulation are **Medical Facilities (DR.UN)** and **Biovail (BVF)**, which both have significant exposure to the U.S. market, and, to a lesser degree, **CML Healthcare (CLC.UN)**.

### Global Sovereign Debt

**Watch out for 2011.** John Lipsky, the IMF's first deputy managing director, told the China Development Forum in Beijing that the world's mature economies need to start reigning in spending and cutting huge national deficits next year in order to sustain long-term fiscal sustainability. He said that stimulus spending can continue in 2010 to push the global economic recovery, but restraint must begin in 2011 through spending cuts, higher taxes and pension and health-care reforms. "Addressing this fiscal challenge is a key near-term priority, as concerns about fiscal sustainability could undermine confidence in the economic recovery," he said. "Already in several countries with particularly high debt and deficits, sovereign risk premia have risen sharply, imposing strains for the countries affected and raising risks of possible broader spillovers." According to IMF estimates, gross general government debt in advanced economies will be around 110% of GDP at the end of 2014. The level represents an increase from an average of around 75% of GDP at the end of 2007. All G7 countries except Canada and Germany will have debt-to-GDP ratios close to or exceeding 100% by 2014. The IMF estimates that gross government debt in the U.S. will reach \$19 trillion by 2014 or 108% of GDP. Japan's debt level is projected to reach a massive 246% of GDP in the next four years. He stated how inflation is "clearly not the answer", as accelerating inflation would create significant risks to a sustained expansion. Lipsky also endorsed China's decision to maintain its fiscal stimulus policy through this year, saying it is "fully appropriate", while the country seeks to rein in its rapid lending growth.

### Steel

**Steel this newsletter.** The World Steel Association released its monthly global crude steel production data. Global steel production posted a 5% sequentially increase in February to an average daily rate of 107.5m tonnes, which totals a 24.2% increase from last year's levels. Some highlights by country and region include: China (47% of global output): +6.1% sequentially and +22.5% y/y; U.S. (6% of global output): +6.2% sequentially, +51.3% y/y; Russia (~7% of world output): +1.4% a sequential basis, +7.7% y/y; Japan (~8% of world output): +7.1% sequentially, +54.0% y/y; and EU (12% of world output): +8.5% sequentially, and +28.6% y/y. Global crude steel production is now back to June 2008 levels (daily average), with output increasing sequentially again in February in every major region globally. After hitting an all-time high in January, China production increased another 6% sequentially in February (daily average), and is on pace to exceed 650m tons in 2010 (+15% y/y). In the U.S., the monthly data supports the trends in weekly capacity utilization rates...i.e. continuing to rebound significantly, with output on pace to increase nearly 30% y/y in 2010, and +70% versus the December 2008 trough. Globally, production is on pace to increase ~14% y/y (based on the run-rate over the first 59 days of the year). While the y/y comparison is off the historically abnormally low base in H1/09, in the view of Credit Suisse, the recent trend of accelerating production

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globally warrants close attention moving forward, particularly considering the pending 'cost push' related price increases. While clearly the high end of the cost curve does not benefit from the sharply higher raw material prices, the rest of the cost curve does benefit. With excess capacity in the U.S. and globally, and with the pricing incentive now in place to ramp up production, we maintain our view that the risk of oversupplies during H2/10 is building.

## Iron Ore

**Iron Giant.** Global iron ore miners and Japanese steelmakers appear to have reached a tentative deal to replace the 40-year-old iron ore pricing system, according to a report on FT.com. The arrangement would switch pricing from a one-year contract price, driven by spot prices and negotiations towards a quarterly pricing model. FT.com reported that one senior executive involved in the talks said: "There is an understanding on both sides to move to quarterly pricing. The negotiation is no longer about annual contracts." The negotiations are occurring with Vale of Brazil and U.K.-based **BHP Billiton (BHP)** and **Rio Tinto (RTP)** and steelmakers such as Nippon Steel, JFE, Sumitomo Metals and Kobe. The executive still needed to resolve significant obstacles to reach a final agreement. This understanding is the clearest sign of the end to the traditional annual system. The deal could be announced by the end of the month. A deal still needs to be worked out with China and Europe. The move to quarterly pricing comes after the Japanese steelmakers this month accepted a similar shift in coking coal. Under the prior iron ore system, the first price agreed between a miner and a steelmaker became a benchmark followed by the rest of the industry for a year. Because the cost of iron ore affects steel prices and, ultimately, the cost of everyday goods, the benchmark talks had been one of the most important commodity price negotiations. According to FT.com, the steelmakers would face higher costs if they moved to quarterly prices linked to the spot market, given the current spot prices of \$143.80 a tonne are, when adjusted for the cost of freight, more than double the \$60 level at which the annual iron ore contracts were settled for the 2009-10 year ending in April.

## Adobe Systems (ADBE : NASDAQ : US\$34.95), Net Change: 0.28, % Change: 0.81%, Volume: 4,895,830

**Is the Flash versus HTML5 debate keeping you up at night, too?** With Adobe set to report Q1F10 results after the close today, JMP Securities highlights the three key issues investors may be focused on in the earnings call: 1) Creative Suite 5; 2) the Omniture integration; 3) and the Flash versus HTML5 debate. Adobe stock has come under pressure due to concerns that HTML5 represents a threat to Flash. While the issue is complicated, many say the risk to Adobe revenue is modest, and would take many years to manifest. It is also unclear if standards will ever be agreed upon, how long it could take, and if **Microsoft's (MSFT)** Internet Explorer would even support standards. The worst-case scenario if realized (and highly unlikely) would involve reduced demand for Flash creation tools, which would take many years to manifest. Jefferies & Co. is also bullish on Adobe, saying concerns over the future of Flash are overblown and they continue to remain optimistic that CS5 will be a decent product cycle. In addition, the firm says they don't need a product-cycle premium multiple for the stock to work from here.

## Best Buy (BBY : NYSE : US\$41.20), Net Change: 0.21, % Change: 0.51%, Volume: 8,228,020

**Not so much.** Best Buy is scheduled to report Q4F09 number on Thursday before that open. Stifel Nicolaus and Co., whose EPS estimate of \$1.80 remains above the Street's \$1.79 consensus, believes management was being conservative by not increasing FY09 EPS guidance in the strong December sales report and thinks the potential for EPS upside is likely. But they think Q4F09 tailwinds (easy comps) will fade into FY10; specifically, the benefit of the Circuit City closure and lapping of significant Best Buy Europe deleverage in Q4F08. Short term, Stifel Nicolaus expect management will highlight positive impact from the recent 3DTV launch, and its continued focus on "connectivity" initiatives driving sales in wake of steadily declining music/movie/gaming categories. Oppenheimer & Co. remains bearish, though. The firm feels that prospects for less compelling new product introductions and heightened competition together with waning expense control opportunities will push Best Buy into a potentially prolonged period of subpar sales and EPS growth. Oppenheimer notes that shares are up lately upon renewed investor interest in discretionary and in anticipation of a buyback announcement. However, the firm feels that indications of continued underlying sales/margin weakness are likely to undermine a potential EPS beat and dash the hopes of investors seeking signals of a turn at Best Buy.

## Dow Chemical (DOW : NYSE : US\$29.59), Net Change: 0.64, % Change: 2.21%, Volume: 10,903,973

**"Dow, that's a low price!"** – The Staples Guy's cousin. Credit Suisse analysts recently met with Dow CFO Bill Weideman and the head of investor relations, Howard Ungerleider. Following that meeting, Credit Suisse remains convinced that Dow offers the best risk/reward profile of the large-cap names in the chemical space owing to its cyclical exposure, operating and financial leverage, rich R&D pipeline and relatively cheap valuation. On the near-term fundamentals, they believe that better-than-trough earnings power in the Basic Plastics segment (owing to rising oil/ethylene prices and declining natural gas costs) as well as modestly improving volumes will help to offset the near-term raw material pressures in the performance segments. The analyst

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modestly raised his EPS estimates for 2010, 2011 and 2012. Over the longer term, he believes that Dow's robust R&D pipeline along with greater leverage to the gradual cyclical recovery (following aggressive cost cuts) and growing emerging market exposure should all drive Dow's mid-cycle earnings power beyond the consensus expectations. Additionally, we believe portfolio changes and balance sheet deleveraging may drive further value creation. The analyst believes Dow is relatively cheap and the risk relative to expectations on Dow's long-term earnings power is likely to the upside.

**Electronic Arts (ERTS : NASDAQ : US\$18.56), Net Change: 0.14, % Change: 0.76%, Volume: 4,891,125**  
**Activision Blizzard (ATVI : NASDAQ : US\$11.96), Net Change: 0.14, % Change: 1.18%, Volume: 10,229,139**

*Game on?* Wedbush Morgan hosted an investor visit to EA's offices in Redwood City, California, yesterday and say they came away impressed that management has a clear strategy and an achievable long-term plan. The key goal for FY11 is to produce fewer, but more profitable games. Wedbush says management very clearly defined areas for potential revenue growth, and outlined cost savings and operating leverage. Moreover, they were outstanding in communicating their vision, and the firm thinks that this type of straight-talk may convince investors to believe in the EA story. BUT...Deutsche Bank remains decidedly bearish on EA, citing its demanding multiple, title strategy and weak execution. The firm recommends Activision Blizzard as their favourite name in the sector, as it offers a diversified profit base owing to its superior title line-up (like Call of Duty and Guitar Hero), especially important as video game sales remain challenged. In addition, they think the Blizzard subscription business is under-appreciated, and represents a major earnings growth driver in the next two years. Deutsche Bank thinks the business looks under-valued relative to its Internet content subscription peer group.

**First Solar (FSLR : NASDAQ : US\$109.36), Net Change: -3.94, % Change: -3.48%, Volume: 2,446,166**

*Clouding over.* The Wall Street Journal put out a bearish piece on First Solar, noting it relies almost completely on subsidies, and those are being slashed in Germany, where the company made 65% of its sales last year. Arguably, the stock, down more than 40% in two years, already reflects the subsidy cuts. But investors should remain cautious for two reasons about First Solar, which trades at 19x estimated 2010 earnings. First, The Journal argues, the company may find it hard to remain as competitive on cost, because rival-technology panels are falling in price due to oversupply from places like Asia. Perhaps more important, the company may find it hard to support profits by expanding its "systems" business – attracting outside money to help fund solar farms that use First Solar's panels. In particular, sceptics ask why First Solar needs to expand the systems business. Surely, if solar demand is truly robust, the company should be able to stick to its proven business of making and selling panels, while letting others bear the full project risks. Perhaps, as The Journal suggests, few investors want that risk, because they are unimpressed with solar power's underlying economics. If that is the case, it hardly bodes well for First Solar's expansion.

**Google (GOOG : NASDAQ : US\$557.50), Net Change: -2.50, % Change: -0.45%, Volume: 4,004,002**

*Still looking for a happy ending.* The company yesterday confirmed that it stopped censoring search services: "Users visiting Google.cn are now being redirected to Google.com.hk, where we are offering uncensored search in simplified Chinese, specifically designed for users in mainland China and delivered via our servers in Hong Kong. Users in Hong Kong will continue to receive their existing uncensored, traditional Chinese service, also from Google.com.hk. Due to the increased load on our Hong Kong servers and the complicated nature of these changes, users may see some slowdown in service or find some products temporarily inaccessible as we switch everything over. Figuring out how to make good on our promise to stop censoring search on Google.cn has been hard. We want as many people in the world as possible to have access to our services, including users in mainland China, yet the Chinese government has been crystal clear throughout our discussions that self-censorship is a non-negotiable legal requirement. We believe this new approach of providing uncensored search in simplified Chinese from Google.com.hk is a sensible solution to the challenges we've faced – it's entirely legal and will meaningfully increase access to information for people in China. We very much hope that the Chinese government respects our decision, though we are well aware that it could at any time block access to our services...We would like to make clear that all these decisions have been driven and implemented by our executives in the U.S., and that none of our employees in China can, or should, be held responsible for them..."

**Lions Gate Entertainment (LGF : NYSE : US\$5.82), Net Change: -0.21, % Change: -3.48%, Volume: 1,448,110**

*Rated "straight to video".* Barron's recommends investors avoid Lions Gate shares following news that Carl Icahn is trying to buy more than 117 million of them he doesn't already own, in order to gain control. Its pipeline doesn't look particularly robust, the business journal thinks. Also, shares have gained 10% in the past year, badly trailing the broader market and its peers, which are tracked by the Dow Jones Broadcasting and Entertainment Index. It also has a history of doing so, over the last two- and five-year periods. Analysts expect the company to report annual losses through 2012, and the Lions Gate has an anaemic 6.9%

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long-term expected-earnings-growth rate. Its margins and returns on equity and assets are either negative or below 1%. What's more, Barron's notes the company pays no dividend and is cash-flow negative, with more than \$850 million in debt (more than its current market cap). Without a bidding war, Lions Gate will likely continue duelling with Icahn. It must also deal with larger trends that threaten studios' traditional reliance on DVD sales, a problem highlighted by its lack of cash.

## **Tiffany's (TIF : NYSE : US\$47.41), Net Change: 0.16, % Change: 0.34%, Volume: 7,936,858**

*"If you liked it, then you should have put a 'buy' on it."* – Beyonce's retail analyst cousin. Tiffany & Co. traded very heavy volume but ended the day flat after releasing Q4 financials. Earnings more than quadrupled, as sales climbed and the upscale jeweller benefited from the absence of prior-year restructuring charges. However, what's inside the blue box does not always meet expectations – profit was less than analysts' predicted. For the new year, the company projected earnings from continuing operations of \$2.45-2.50 a share on sales growth of 11%, above analyst expectations of \$2.43 a share and revenue growth of 8% to \$2.93 billion. Commenting on the quarter, Chairman and Chief Executive Michael J. Kowalski said, "We were very pleased with the sales," which reflected growth in most countries, product categories and price segments. Luxury-goods demand was revived over the crucial holiday season, with retailers beginning to replenish stocks at year end. Given the improved environment and better than expected holiday sales, Tiffany, which operates 220 stores globally, raised its 2010 guidance as it boosted its dividend and resumed share buybacks after a hiatus of more than a year. Industry executives have expressed hope that the worst has passed after the economic crisis put an abrupt end to impressive growth in the sector. While expectations for a global economic upturn remain modest, luxury goods firms have placed their hopes on Asia - especially China. For the period, Tiffany reported a recurring profit of \$1.10 a share, up from \$0.81 a year earlier, but slightly below the \$1.13 consensus estimate. Revenue increased 17% to \$981.4 million, or 13% excluding currency changes. Same-store sales were up 8% with U.S. same-store sales up 11% and growth at the New York flagship store doubled that.

## **COFFEE BEAN**

– Lawyers for Tiger Woods are reportedly trying to halt the sale of a series of sex toys that exploit the golfer's personal problems. The toys include a "Take Home, Blow-up Tiger Love Doll" and are for sale on Pipedream Products' web site for "a limited time only." Woods' lawyers are demanding that the company stops selling the products, recall all items that have already been distributed and destroy all stock. (Ananova.com)

**THE LAST DROP:** I just want to address those of you out there who might be like me, in pop culture, basketball players, entertainers, rock stars, people like that. We are not really the most well-informed people, and yet, because we've worked really hard, and the American dream is alive and well, we've been able to become high net-worth individuals. We have access to literally \$7 billion to loan you against your life insurance policy at Libor flat.

– *Kiss bassist and co-founder of Cool Springs Life Equity Strategy, Gene Simmons, offering loans to life-insurance policyholders against their eventual payout*



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